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FISCAL IMPACT STATEMENT

LS 6955 **NOTE PREPARED:** Jan 14, 2008
BILL NUMBER: HB 1307 **BILL AMENDED:**

SUBJECT: State Spending Cap.

FIRST AUTHOR: Rep. Borror **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: The bill provides a control on state expenditures for state fiscal years beginning after June 30, 2009, that is based on the change in gross Indiana nonfarm personal income as reported by the United States Department of Commerce, Bureau of Economic Analysis.

The bill requires the Budget Agency to determine and publish the Indiana nonfarm personal income growth quotient (the IPI growth quotient) in the Indiana Register. It provides for emergency expenditures and mandatory reductions in expenditures.

It requires that the digest of a budget bill or a conference committee report on a budget bill must contain certain information concerning state appropriations and expenditures. It also provides that current law concerning business cycle state spending controls expires June 30, 2009.

Effective Date: July 1, 2008.

Explanation of State Expenditures: *Expenditure Limits*: The bill repeals the current state spending controls outlined in IC 4-10-21 which were established in P.L. 192-2002(ss) and replaces them with a similar set of limits and requirements. The bill resets the base year to FY 2009 and will affect appropriations beginning with the FY 2010-FY 2011 budget.

This bill requires the Budget Agency to determine the Indiana nonfarm personal income (IPI) growth quotient. The IPI growth quotient is defined as the average annual change in Indiana nonfarm personal income over the preceding six years or a maximum of 1.06. The Budget Agency is to publish this index in the Indiana Register not later than February 15 of each odd-numbered year and the historic IPI numbers in the Indiana Register not later than July 1 of each odd-numbered year. The Budget Agency shall also publish the maximum expenditure amounts in the Indiana Register not later than February 15 of each odd-numbered year.

The bill defines the maximum expenditure for FY 2010 to be based on FY 2007 actual expenditures adjusted for the FY 2008, FY 2009, and FY 2010 IPI growth quotients. Beginning in FY 2012, the expenditure growth is based on the prior two IPI growth quotients.

Based on the December 13, 2007, state revenue forecast, Indiana IPI is expected to grow at 4.52% in FY 2008 and 2.48% in FY 2009.

The bill states that the General Assembly may not appropriate and the Budget Agency may not allot more expenditures in a state fiscal year than the base-year spending of the controlled state funds adjusted by the IPI growth. This bill defines controlled state funds as the General Fund, the Property Tax Replacement Fund, and the Counter-Cyclical Revenue and Economic Stabilization Fund.

The bill allows an increase in the spending cap, other than by the IPI growth quotient, if at least one of the following occurs: (1) a spending responsibility has shifted from another level of government to the state; (2) a spending responsibility has shifted from a fund not limited by this chapter to a limited fund; or (3) there has been an expansion of state services and state spending and a tax increase has been dedicated to these services. The increase in the spending cap requires approval of a two-thirds majority of both the House and Senate.

The bill also sets out procedures for the reduction of the state spending cap under certain conditions.

This bill affects appropriations and allotments for fiscal years beginning FY 2010. The impact of state spending is indeterminable and subject to legislative, executive, and judicial actions.

Budget Bill Requirements: This bill requires that the digest of the conference committee report on the budget bill contain the following information: (1) the total amount of appropriations from controlled state funds; (2) the total amount of appropriations for expenditures subject to general expenditure controls; and (3) the expenditure limit for controlled state funds. This requirement would first apply for the budget bill considered during the 2009 General Assembly.

Explanation of State Revenues:

Explanation of Local Expenditures: Distribution of state revenue to local units of government are dependent on the disposition of state appropriations.

Explanation of Local Revenues:

State Agencies Affected: All; State Budget Agency; General Assembly.

Local Agencies Affected: All.

Information Sources: *GF & PTRF Statement of Combined Estimated Unappropriated Reserve*, July 16, 2007 - State Budget Agency; December 13, 2007, *Revenue Forecast* - Revenue Forecast Technical Committee.

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